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Financing the 2030 Agenda for Sustainable Development: prerequisites, and opportunities for the post-Covid-19 crisis

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A key added value of the 2030 Agenda for Sustainable Development is that all governments have made an explicit commitment to drive a fundamental transformation of their society and economy towards more sustainablility. This overarching goal is even more relevant in the context and aftermath of the 2020 global health crisis linked to the Covid-19 pandemic: its emergence and impacts in health, economic and social terms revealed the multisectoral and embedded vulnerabilities of our societies. In this context, the issue of financing the 2030 Agenda should be considered—and tackled—both in its complexity and urgency.

With a view to supporting international discussions currently taking place within the United Nations' SDG monitoring process, and to drawing attention to the aspects of the 2030 Agenda most relevant to the global crisis response (health, food, livelihoods, etc), this Issue Brief intends to provide professionals in the fields of development, diplomacy and finance with a strategic in-depth understanding of the complexity and challenges embedded in the issue of financing the 2030 Agenda; it also suggests avenues for more efficient financing processes in terms of principles, instruments and partnerships.

KEY MESSAGES

Beyond numbers and volume of funding, alignment of finance with the 2030 Agenda is both necessary and urgent. The true test is not how much is invested in projects that support one or several of the 169 SDG targets. Rather, it is to ensure that all projects are designed to minimise the negative externalities and maximise the positive externalities across the various SDGs/targets.

Effectively implementing and financing the 2030 Agenda requires the establishment of alliances and partnerships that, in concerted action (between stakeholders and tools): i) bet on innovation, ii) are grounded on national/local needs and capabilities, iii) with active participation of civil society, iii) have large upfront investment with long-term financing and payback periods, iv) political will and participation from government authorities and, v) use science-based solutions that catalyse cross-sectoral transitions.

A fundamental prerequisite for financing the 2030 Agenda at country level is to transform public finance and develop Integrated National Financing Frameworks, as agreed by Members States in the Addis Ababa Action Agenda in order to spell out how the national sustainable development strategy will be financed and implemented. This will bring together financing and related policies most relevant to addressing a country's financing challenges, and will provide public and private investors clarity and predictability, allowing them to better grasp the sequence of investments across the three time horizons of relief, recovery and long-term structural transformation.

New actors within the international finance ecosystem, such as public development banks, should be mobilised in financing the 2030 Agenda, in addition to overseas development assistance and domestic resources. And innovative instruments such as blended finance or bonds should also contribute to this endeavour.

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1. SDG FUNDING GAP: THE GREAT DIVIDE

Before the crisis struck, numbers said that implementing the SDGs would cost between USD 50 trillion and USD 70 trillion, over a 10-year period (2020-2030). Out of the USD 3.5 trillion mobilised per year for SDGs implementation, 1.6 trillion come from public sources, and 1.9 trillion come from private sources (UNEP FI,2018). In the case of developed countries (USD 1.4 trillion per year), the remaining gap to the target is of less than 10%, whereas in emerging markets and developing countries, especially in Africa, the annual gap is of USD 2.5 trillion per year. Funding needs for exiting the crisis and for reconstruction are going to be even higher, in a context of fragile macroeconomic infrastructures and high public debt. In this context, the situation in developing countries, LDCs, LLDCs and SIDS in particular, is of special concern.

The challenge therefore lies in how to ensure that money is mobilised from international financial flows for the sake of developing countries and safeguards that the long-term vision of resilience and sustainability of the 2030 Agenda is the target? And beyond the vast amount of funding needed to implement the SDGs, today, more than solidarity, co-responsibility is required as governments' action alone will not suffice.

2. WHAT DOES "FINANCING THE 2030 AGENDA" REALLY MEAN?

How to align with the 2030 Agenda to better target and mobilise the funding needed to achieve a successful implementation of the SDGs? The true transformative potential of the 2030 Agenda lies in its integrated and indivisible nature, which can help tackle and reduce the structural causes of vulnerabilities that the world faces. This means that the design/implementation of policies, the structuring/financing of projects, as well as monitoring of its effects, should focus on maximising synergies and co-benefits, while reducing possible trade-offs. In other words, the successful implementation of this paradigm shift will rely upon disentangling complex interactions between the goals and their targets. For instance, driving investment for sustainable infrastructure energy in Africa implies understanding that "building infrastructure does not automatically bring broad-based growth and social development".[1] Efforts should therefore focus on channelling funding to infrastructure that reduces inequalities in access to energy and thus, to development, and at the same time, meets local needs in a socially acceptable, and environmentally friendly manner.

Financing the 2030 Agenda entails ensuring investments are not contradictory to environmental and social goals like climate and biodiversity, but also inequalities and food security. A significant proportion of financial flows—in both the public and private sectors—are still not aligned or even compatible, with the SDGs.[2] Public and private financial systems as well as some donors within development cooperation, who are responsible for the allocation and intermediation of resources in developing and developed countries, still favour predominantly fossil fuel-related investments.[3] And the financial support provided by some governments to industries/activities harmful to the environment–focused mainly on fossil-fuel subsidies and backing of agriculture that is potentially damaging to biodiversity–exceeds by a factor of 10 the investments made in favour of the conservation and sustainable use of biodiversity.[4]

In addition, if funders are to play a transformational role to redirect, mobilize and unlock the necessary funding to attain the 2030 Agenda while helping countries out of the crises, standalone, "cherry picking" approaches are definitely not enough. Investing to fulfil certain SDGs, without simultaneously ensuring that other areas of their own activities do not counteract those objectives, evidently undermines efforts to achieve sustainable development at large.

How synergies and trade-offs among goals play out in a particular setting is also worth taking into account. Synergies cannot be taken for granted and do not occur automatically: one missing element—be it efficient governance, health system, or energy provision, or better management of natural resources—can have dripping effects throughout the economy and society.

Hence, providing common frameworks and standards that facilitate the task of understanding which investments are sustainable, where all different flows are going and what impact they actually have, is essential at this stage, in order to reduce the growing risks of "SDG-washing". This is actually very important in this crisis period, as this SDG alignment assessment is actually crucial to reveal structural vulnerabilities that might be embedded in a specific type of project/development pathway. The OECD is currently working on several initiatives (SDG Lab, Impact Management Project (IMP), and TOSSD) to develop capacities aiming at mapping flows to the SDGs and assessing SDG financing needs and gaps.

1 SEI (2017). Catalysing investment in sustainable energy infrastructure in Africa: Overcoming financial and non-financial constraint; Altieri, K. *et al.* (2015). Pathways to deep decarbonization in South Africa, SDSN - IDDRI.

2 Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change International, Reclaim Finance and Sierra Club (2020). Banking on Climate Change Fossil Fuel Finance Report 2020.

3 OECD (2019). Aligning Development Co-operation and Climate Action: The Only Way Forward.

4 OECD (2019). Biodiversity: Finance and the Economic and Business Case for Action, report prepared for the G7 Environment Ministers' Meeting, 5-6 May 2019

3. MAKING THE 2020s A TRUE "DECADE OF DELIVERY" FOR THE SDGs

Financing sustainable development strategies and transformations within countries

An adequate financing of the 2030 Agenda should imply putting in place policies and regulations that send the right signals to catalyse the desired behaviours and investments. Shaping effective policy responses requires understanding the deeper systemic interconnections between individual goals and targets, but mostly, assessing how they unfold at the national/local level.

Although some countries have set up policy frameworks for SDG implementation, as observed from the Voluntary National Reviews (VNRs), only very few have presented an associated financing plan. Thus, this effort falls short, given the complex and ambitious set of transformations needed to deliver on the 2030 Agenda: an overarching policy that provides solely general remarks on the country's objectives without relying on budget allocation or on a financing plan will remain as a mere intention, rather than becoming a vehicle for change.

In the Addis Ababa Action Agenda, Member States agreed "that cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks (INFF), will be at the heart of efforts". Operationalising INFFs is an option to foster public and private investments that are truly aligned with the SDGs. These powerful planning tools, still overlooked by countries, can definitely help overcome many of the existing impediments to financing sustainable development. Once countries already know *what* needs to be funded–laid out in their sustainable development strategy–INFFs will map *how* this plan ought to be financed and implemented. According to the UN Report on Financing for Sustainable Development (2019, 2020), INFFs will consider the full range of financing sources and non-financial means of implementation that are available to countries, and therefore help define financing strategies that are grounded in the country's specific context and risks and that will connect financing and related policies more explicitly with longer-term objectives–in short, a blueprint on resources needed and where to invest them. INFFs can provide a logical financing framework for steering synergies between SDGs, in concert with other key drivers of sustained growth–like the entry points proposed by the *Global Sustainable Development Report* (2019).[5] Such a process will allow stakeholders and financial actors concerned at the local, national and global levels to target their investment efforts with the needed clarity on where their funds could provide effective results. In the post-crisis period, such planning might prove particularly useful in managing the emergency relief, economic recovery and long-term structural transformation sequence of investments and action, and in avoiding lock-in situations and path dependencies where short-term recovery investments would hamper long-term goals in relation to inequalities reduction or environment protection, and even increase vulnerabilities.

Reaching out to new financing actors

Although traditional financing approaches, such as ODA and domestic resource mobilisation, remain essential, a vast amount of additional funding is needed to finance the 2030 Agenda. Public Development Banks (PDBs) may be a prime candidate. In 2018, Development Finance Institutions (DFIs), including development banks, represented USD 1.9 trillion in investments.[6] Are they fit for the purpose? Initial evidence such as sustainability reports, strategic plans, and published assessments of financed projects illustrate practices that might lead to think they can become allies in this endeavour. In this respect, we can highlight the commitment, made in the margins of the September 2019 climate and SDG summits, of the IDFC (International Development Finance Club), which brings together 24 national or regional DBs, to further harmonise its financial flows with the Paris Climate Agreement and the 2030 Agenda.

International financial institutions and PDBs can play an important role in addressing the impacts of the Covid-19 crisis and financing the recovery. Available tools to mobilise large injections of concessional finance, like offering a diversified portfolio, or having dedicated credit lines for on-lending should be rooted in the promises of the 2030 Agenda to safeguard funding will be channelled to support the desired sustainability transitions.

Harnessing the potential of innovative financial instruments

Why and under which conditions trending financial instruments such as blended finance, bonds, artificial intelligence, or venture funds, can truly contribute to finance the 2030 Agenda? Harnessing the potential of those tools demands real commitment to invest in areas critical to sustainable development, and exceed the myopia of short-termism and aversion to invest in fragile settings. For instance, blended finance trends show[7] a preference to invest in SDG targets aligned with common private-sector goals, such as economic growth and infrastructure, with less than 6% going to least developed countries, and less than 6% to social services (health and education). Therefore, if we intend to move these instruments from 'safe investments' to 'impactful investments', the call is for a more strategic interplay between beneficiaries, investors, areas of focus—cross-cutting transitions that catalyse sustainable development—and targeted countries –better tailoring solutions to the needs of developing countries. Blended finance offers the possibility to jointly allocate resources, share transaction costs and de-risk investments with a longer-term perspective. A positive example is the recently launched AGRI3 initiative created by UNEP and Rabobank, together with partners IDH Sustainable

5 Make economies just and sustainable; transform food systems and nutrition patterns; decarbonize energy systems and make energy universally accessible; rethink urban and peri-urban development and sustainably manage global environmental commons.

6 Independent Group of Scientists appointed by the Secretary-General (2019). *Global Sustainable Development Report 2019: The Future is Now – Science for Achieving Sustainable Development*, United Nations, New York.

7 Convergence (2019). Scaling blended finance for the SDGs.

Trade Initiative, the Dutch development bank FMO and Mirova Natural Capital as the lead investment advisor to the vehicle. The initiative will act as a blended finance vehicle aiming at unlocking at least USD 1 billion in finance towards deforestation-free, sustainable agriculture and land use.

Another interesting tool are bonds. There is broad portfolio of SDG investments that could be financed through SDG bonds.[8] Sovereign, municipal and project bonds able to support the implementation of countries' national plans for the SDGs have as well a large potential within the market. However, there are still many unresolved questions: Do they really bring additionality? What is their added-value? Do they attract capital into investments that are more novel? Are bonds an important innovation for sustainability or just the same business- as- usual with a new cover? Mexico recently launched its SDG Sovereign Bond Framework,[9] which provides clear guidelines for the government for SDG Bond issuance. This charter comes with attention-grabbing proposals like geospatial eligibility criteria (targeting end-beneficiaries in vulnerable population groups), dynamic exclusion and screening criteria (with avoided sectors and impacts, such as deforestation), and impact reporting (beyond the sole budget allocation reporting). Drawing on Mexico's experience could be of use for revising other private or public bonds issued in the market and safeguarding that they are structured under an SDG lens.

In times of crisis, the question of the added value of these financial innovations with regard to a situation of debt also needs to be addressed: aligning with an 'SDG aligned sequence of investment'; assessing the starting point and the prospects for growth, not only betting on future growth to develop debt-based instruments.

Concerted action to deliver better development solutions

The 2030 Agenda and its SDGs are about partnerships, inclusion and action. Large private and financial players have the responsibility to look up and leverage the kind of initiatives that make SDGs 'actionable'. It is not just about partnering, but to bring people in so they own the solution, they own the process. Effectively implementing and financing the 2030 Agenda requires the establishment of forceful alliances that have the appetite to deliver systemic solutions; partnerships that convene decision-makers and business that are willing to back its efforts with political and institutional capital. Above all, we need concerted action that: i) bets on innovation, ii) is grounded on national/local needs and capabilities, iii) with active participation of civil society, iii) which has large upfront investment with long-term financing and payback periods, iv) political will and participation from government authorities and, v) employing science- based solutions that catalyse cross-sectoral transitions.

Focus needs to be on the effectiveness and development impact of such engagements. For instance, the work that has been done by the Latin American Water Funds Partnership[10] to contribute to water security is a an example of collective effort grounded on results and targeted impact, inclusive dialogue, learning, and scaling up successes. The Partnership has promoted the creation of 24 Water Funds—which are collective-action organizations that create a unified and long-term view about water security—in eight countries. Water Funds created have leveraged over USD 200 million from nearly 500 public and private partners, preserving 227,173 hectares through projects developed with 23,823 families upstream. The logic behind each Water Fund lies in generating a dynamic in which large water users (beverage companies, industry, utilities) invest and work together with upstream communities to guarantee the water security of a city or territory. All of the above by employing science and understanding that the well-being of people and nature are intrinsically linked, and this premise should be used to guide policy and investment decisions.

8 UN Global Compact Action Platform on Financial Innovation for the SDGs (2018). SDG Bonds & Corporate Finance A Roadmap to Mainstream Investments.

9 https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/UMS-SDG_Sustainable_Bond_Framework.pdf

10 Latin American Water Funds Partnership is an agreement between the Inter-American Development Bank, FEMSA Foundation, the Global Environment Facility, IKI and The Nature Conservancy. https://www.fondosdeagua.org/en/

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